



Report of the auditor-general to the North West provincial legislature and the council on the Dr Ruth Segomotsi Mompati District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Dr Ruth Segomotsi Mompati District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dr Ruth Segomotsi Mompati District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, irregular and fruitless and wasteful expenditure

8. As disclosed in note 21 to the financial statements, unauthorised expenditure of R43 028 362 was incurred in the current year.
9. As disclosed in note 22 to the financial statements, irregular expenditure of R200 092 166 was incurred in the current year.
10. As disclosed in note 23 to the financial statements, fruitless and wasteful expenditure of R33 761 was incurred in the current year and fruitless and wasteful expenditure from prior years of R69 367 had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

11. As disclosed in note 29 to the financial statements, the corresponding figures for the 30 June 2015 have been restated as a result of errors discovered during 30 June 2016 in the financial statements of the Dr Ruth Segomotsi Mompati District Municipality at, and for the year ended 30 June 2016.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.



Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Development objective 1: Basic Service delivery on pages x to x
 - Development objective 2: Local economic development on pages x to x
17. I evaluated the usefulness of the reported performance information to determine whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected development objectives are as follows:

Development objective 1: Service delivery

Usefulness of reported performance information

20. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 24% of the reported targets were not consistent with those in the approved SDBIP
21. Section 54(1) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments' budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to important targets in the annual performance report, without adoption by the municipal council.
22. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance. A total of 24% of the reported targets were not specific.

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

Development objective 2: Local economic development

Usefulness of reported performance information

24. Section 41(c) of the MSA requires the IDP to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 80% of the reported indicators and 20% of the targets were not consistent with those in the approved SDBIP
25. Section 54(1) of the MFMA determines that the service delivery and budget implementation



plan adopted by the municipal council may be amended only if the council approves an adjustments' budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to important targets in the annual performance report, without adoption by the municipal council.

Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matters

27. I draw attention to the following matters:

Achievement of planned targets

28. Refer to the annual performance report on pages XX to XX and XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development objectives reported in paragraphs 20 to 26 of this report.

Unaudited supplementary schedules/information

29. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently in the financial statements receiving unqualified audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.



Budgets

33. Expenditure was incurred in excess of an approved budget in contravention of section 87(8) of the MFMA.
34. Unforeseen and unavoidable expenditure incurred by the municipality was not approved by the mayor as required by section 29(1) of the MFMA.

Revenue management

35. Interest was not charged on all accounts in arrears as required by section 64(2)(g) of the MFMA.

Consequence management

36. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

37. I could not obtain sufficient appropriate audit evidence that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
38. I could not obtain sufficient appropriate audit evidence that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
39. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Strategic planning and performance management

40. The amendments to the IDP was not adopted by the council only after all the members of council have been given reasonable notice and the proposed amendment has been published for public comment and consultation with all the local municipalities in the area and taking into account all comments received as required by Municipal planning and performance management regulation 3(4) and (5).
41. The key performance indicators set by the municipality did not include indicators on the percentage of households with access to basic level of water, sanitation and solid waste removal as required by section 43(2) of the MSA and regulation 10(a) of the Municipal planning and performance management regulations.

Environmental management

42. The district municipality did not fulfil all the assigned powers and co-operative functions to support its local municipalities in terms of sections 152, 156 and 229 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and sections 83(1) and (2) and 88(1) of the Municipal Structures Act, 1998 (Act No. 117 of 1998) towards a healthy, safe and sustainable environment.



Internal control

43. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 44. The leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. Policies and procedures did not adequately guide financial, performance and compliance activities.
- 45. The accounting officer does not adequately review the financial statements and the annual performance report prior to their submission for audit, resulting in various misstatements and corrections during the audit
- 46. The municipality did not properly plan and provide necessary training on performance information planning, management and reporting.
- 47. The Municipality has not exercised oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Financial and performance management

- 48. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from misstatements. As a result, material corrections had to be made in the annual financial statements.
- 49. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.
- 50. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Governance

- 51. The audit committee did not adequately review to ensure the adequacy, reliability and accuracy of the financial statements and performance report before the submission for the auditing. As a result, material corrections had to be made in the annual financial statements.
- 52. The internal audit department was fully functional during the year under review; however the recommendations made were not implemented.

53. Management failed to implement recommendations from the risk assessments which were conducted during the year under review.

Potchefstroom

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence